

ASK THE EXPERTS WEBINAR

*Addressing Internal Control
Deficiencies in the COVID-19 Crisis*

June 4, 2020

PRESENTERS



Bill Maloney

EXECUTIVE MANAGING DIRECTOR

Expert Areas: Revenue recognition, business combinations, pro forma financial statements for SEC filings

Industries Served: Retail, telecommunications, and oil & gas

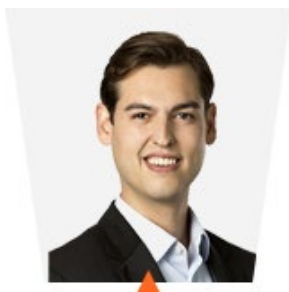


Mark Cox

MANAGING DIRECTOR

Expert Areas: IPO readiness, internal controls, technical accounting

Industries Served: Manufacturing, software and energy



Matt Farrell

SENIOR MANAGER

Expert Areas: Internal audit and risk advisory

Industries Served: Manufacturing, engineering, and energy



Tyler Graffunder

SENIOR MANAGER

Expert Areas: Internal audit and risk advisory

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AGENDA

INTRO & REMINDERS

INTERNAL CONTROL CONSIDERATIONS
DURING COVID

DEFICIENCY TRENDS

DEFICIENCY REMEDIATION STRATEGIES

SUMMARY

Q&A

KEY REMINDERS


- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
 - ▶ Access to this webinar recording and deck
 - ▶ The ability to join our Webinars Mailing list to receive future invites
 - ▶ Presenter contact info

Polling Question 1

Does your company have any internal control deficiencies that have not been remediated?

- A. Yes
- B. No
- C. N/A





INTERNAL CONTROL CONSIDERATIONS DURING THE COVID-19 CRISIS

INTERNAL CONTROL CONSIDERATIONS DURING COVID-19

Risk assessment

- ▶ Revisit risk assessments considering the current environment
- ▶ Reconsider materiality based on decreases in revenue and/or earnings
- ▶ Take a fresh look at fraud risks
- ▶ Is this the time to move to a continuous risk assessment process?

Rapid adoption of remote work

- ▶ New systems introduced to allow employees to work remotely
- ▶ Use of different networks (home wi-fi, cellular hotspot, etc.) may present new challenges for company and customer data
- ▶ Introduction or increase in use of automation in monitoring or performing controls
 - ▶ Understand tools available to facilitate a more efficient control environment
 - ▶ Is this the time to formulate a long-term automation strategy?
- ▶ Review manual controls for proper design in a remote working environment

INTERNAL CONTROL CONSIDERATIONS DURING COVID-19

Staff reductions

- ▶ Many companies have been forced to lay off or furlough employees to reduce costs
 - ▶ Evaluate impact to control environment
 - ▶ Reperform segregation of duties analysis based on current structure

Technical accounting and reporting considerations

- ▶ Debt modifications
- ▶ Impairment analysis
- ▶ Updates to disclosures

One-time or non-recurring transactions

- ▶ Understand impact of unusual or non-recurring transactions
- ▶ Going concern analysis

Polling Question 2

Which of these is most relevant for your company's internal control environment during the COVID-19 crisis?

- A. Revisiting risk assessments
- B. Redesign or addition of controls
- C. Adoption of new technology
- D. Other
- E. N/A





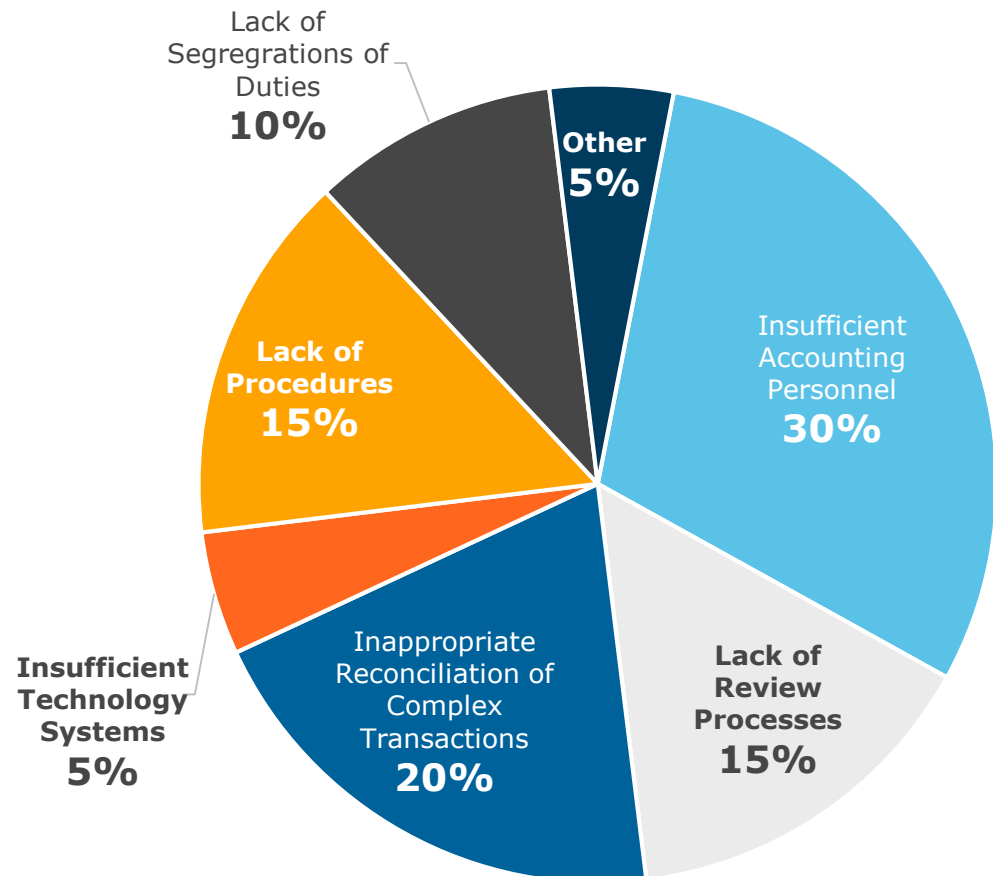
DEFICIENCY TRENDS

COMMON DRIVERS OF MATERIAL WEAKNESS

"Those who do not remember their past are condemned to repeat their mistakes." **-George Santayana**

In order to properly assess how COVID will impact your control environment, it is helpful to understand common pre-COVID drivers of Material Weakness...

...and identify how shifting business operations in response to the COVID environment exacerbates the challenges that drive MWs in the first place.

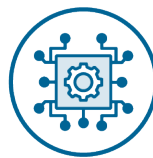


COMMON SCENARIOS THAT INCREASE LIKELIHOOD OF MW



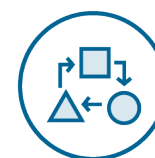
TURNOVER OF ACCOUNTING & FINANCE PERSONNEL

- ▶ One of the most common MWs that companies face
- ▶ Transitioning control ownership upon departure of key accounting personnel
- ▶ Knowledge transfer and succession planning imperative to control environment's quality in times of heavy turnover



IMPLEMENTING NEW TECHNOLOGY OR APPLICATIONS

- ▶ Change management controls are imperative to any successful application or system implementation
- ▶ Assess segregation of duties/ access risk
- ▶ Prior to data migration, ensure data integrity



BUSINESS PROCESS CHANGES

- ▶ COVID resulted in widespread changes in business processes
 - ▶ Re-assess segregation of duties / access risk
 - ▶ Re-assess whether additional monitoring controls need to be implemented to address risk in altered business processes

COMMON SCENARIOS THAT INCREASE LIKELIHOOD OF MW



BUSINESS COMBINATIONS AND DIVESTITURES

- ▶ Business integration efforts should include focus on standardizing controls across newly acquired business units
- ▶ Risk assessments should be refreshed to incorporate impact of business transactions on risk management program
- ▶ Transactions often give rise to technical accounting, financial reporting and valuation matters
 - ▶ Debt Modifications, Hedging, Derivatives, etc.



ADOPTION OF NEW ACCOUNTING STANDARDS

- ▶ Organizations face multiple control risks when adopting a new accounting standard, both upon adoption, and on a go-forward basis
 - ▶ Saw a great deal of organizations over the last two years working thru adoption of ASC 606 and ASC 842



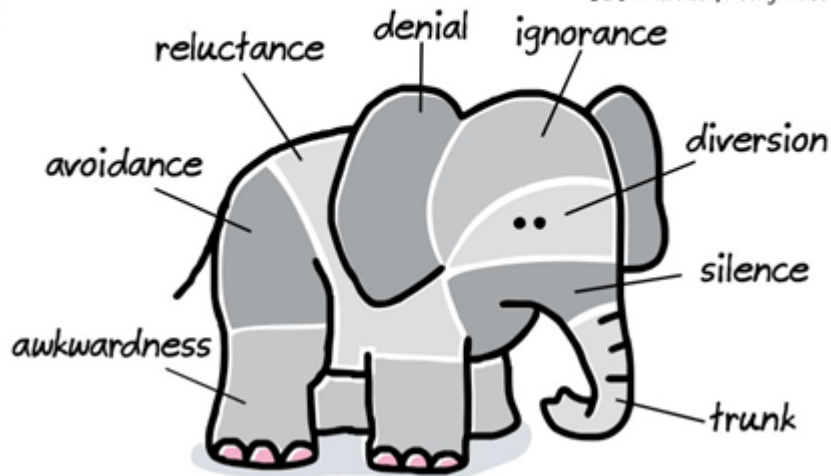
COMPLETENESS & ACCURACY OF KEY REPORTS

- ▶ Any time data produced by a system or application is leveraged in the execution of a key control, an organization has the responsibility to validate completeness and accuracy of the underlying information

DOES THIS APPLY AT YOUR COMPANY?

PARTS OF THE ELEPHANT IN THE ROOM

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- ▶ Are any of the common drivers discussed impacting your business?
- ▶ Have you refreshed your annual risk assessment?
- ▶ How have you taken proactive measures to address the changing risk outlays at your respective organizations?
- ▶ Do you plan to accelerate interim testing plans to proactively identify where deficiencies may have arisen?
- ▶ Have you assessed how RIFs may impact control ownership?
- ▶ Have you assessed how RIFs may impact segregation of duties?

Polling Question 3

Of the common deficiencies discussed, which is of greatest concern at your organization?

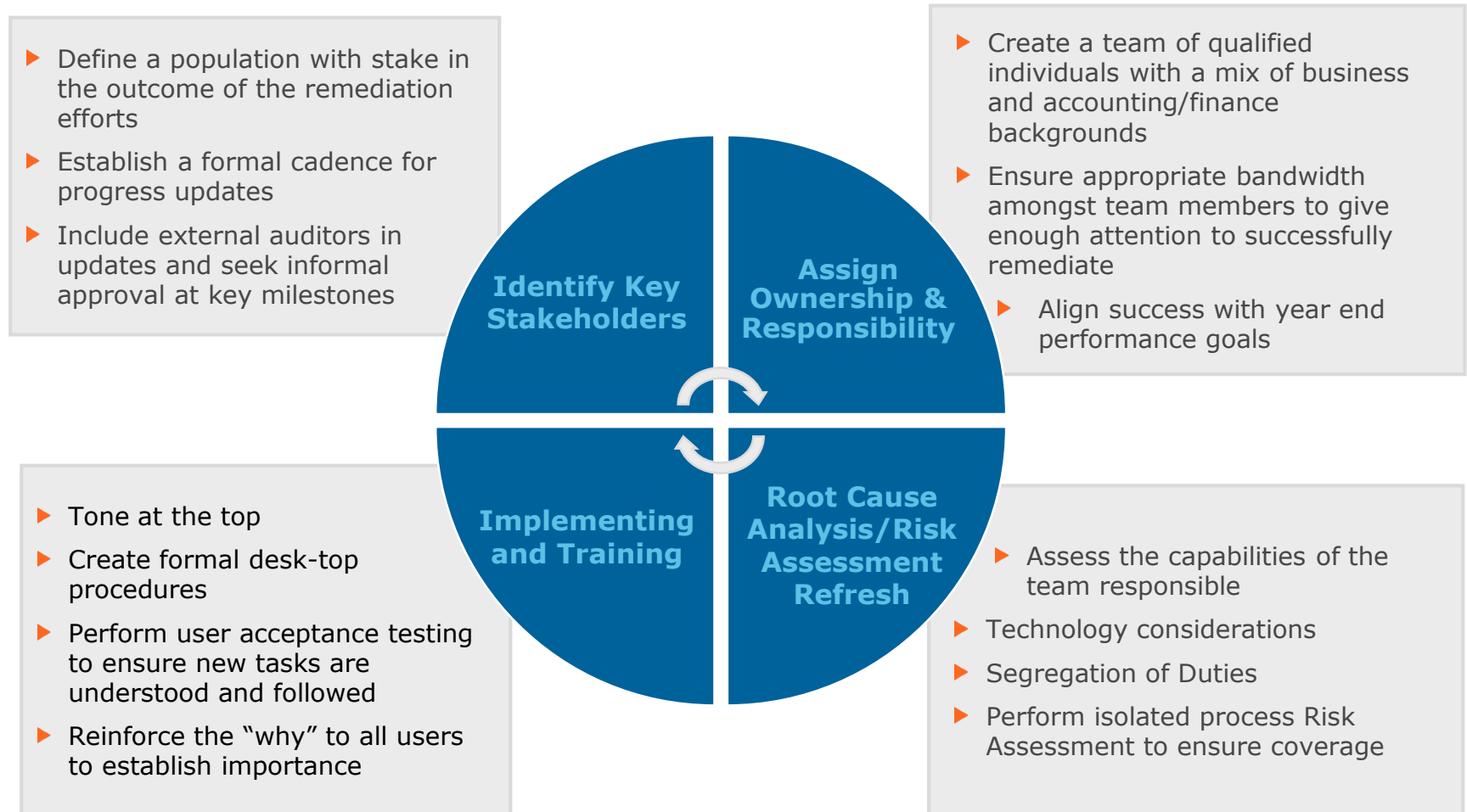
- A. Turnover of key personnel
- B. Information security
- C. Monitoring controls
- D. Other





DEFICIENCY REMEDIATION STRATEGIES

REMEDATION CONSIDERATIONS



CONTINUOUS MONITORING OF REMEDIATION PLAN

STAKEHOLDER UPDATES

- ▶ SEC Filing – detailed disclosure with continuous progress updates
- ▶ External Auditors – consistent alignment on plans is crucial for end result buy-in

PROGRESS CHECK POINTS

- ▶ Attainable milestones to keep the team motivated and on track
- ▶ Issue transparency to ensure resources and support are adequately assigned

REAL TIME TESTING

- ▶ Self and independent testing at each phase completion
- ▶ Assess severity of any discovered issues and update the remediation plan as necessary

COVID-19 CONSIDERATIONS FOR REMEDIATION

TECHNOLOGY

- ▶ Identify and enhance "paper" controls
- ▶ Explore add-ons for already purchased tech (Blackline, Auditboard, etc.)

COMMUNICATION

- ▶ Daily touchpoints with remediation team
- ▶ Granular level deadlines to help with prioritization in dispersed working environment

EFFICIENCIES

- ▶ Reduced staff does not equate to reduced work load
- ▶ Re-prioritize tasks and shuffle timing (i.e., monthly to quarterly) where possible

Polling Question 4

Which of the areas below have been the most difficult to overcome when remediating a deficiency?

- A. Adoption of new procedures
- B. Technology enhancements
- C. Tone at the top
- D. Meeting remediation deadlines



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Q&A

ADDITIONAL RESOURCES

Related Thought Leadership

[Five Common Scenarios That Can Lead to a Material Weakness](#)

[Five Common Mistakes Companies Make When Addressing a Material Weakness](#)

View additional insights [HERE](#)

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